

“Ensuring National Security While Promoting Foreign Investment in an Age of Global Terrorism”

**Statement before the Committee on Financial Services
United States House of Representatives**

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Mr. Chairman and other distinguished Members of the committee,

Thank you for the opportunity to testify before you today. I was asked to present a context from a national security and global terrorism perspective for which members might consider reforms to the CFIUS legislation. To do that, I must begin with an aphorism now over a decade and a half old, but ever so important in the context of discussing al Qaeda and CIFIUS today.

So with all do respect to the members of this Committee: It's the economy, stupid.

The creation of the Committee on Foreign Investment in the United States (CIFIUS) was intended to provide a process for reviewing if foreign investments in U.S. companies would or could potentially harm U.S. national security interests. And it has done this for nearly thirty years.

Up until the September 11th attacks, our principal concerns regarding foreign investments in U.S. firms were first, that we did not want critical resources produced by U.S. companies and supplied to the U.S. military to be held hostage in times of

¹ The opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of CSIS or any of the sponsors of its research.

² The Center for Strategic and International Studies provides strategic insights and practical policy solutions to decision makers committed to advancing global security and prosperity. Founded in 1962 by David M. Abshire and Admiral Arleigh Burke, CSIS is a non-partisan, non-profit organization headquartered in Washington, D.C with more than 220 employees. Former U.S. Senator Sam Nunn became chairman of the CSIS Board of Trustees in 1999, and John J. Hamre has led CSIS as its president and chief executive officer since April 2000. More information is available at www.csis.org.

war; and second, nor did we want to hand our enemies the tools—including so-called dual-use technologies—to wage war against us. So the CIFIUS process was put in place to protect us from these concerns.

But our perspective on what constitutes a national security concern changed dramatically after September 11th. And we must understand those changes to fairly consider what should or should not change with regard to the CIFIUS process.

A New Context – Changes in the Security Landscape

To begin with the security landscape, there are considerable changes in terms of who we fight, how we fight, where we fight, and who does the fighting. Let me elaborate on each of these:

First, our adversaries are no longer principally nation-states, but now include non-state actors—terrorists with global reach—as well.

Second, the front lines of war are no longer predominantly trenches across political boundaries; they are in the streets and buildings of our cities and states, at curbside check-ins at airports, turn-styles at stadiums, and in emergency rooms in hospitals.

Third, our battles are no longer fought solely by airmen, soldiers, sailors and marines; they are also fought by epidemiologists, cryptologists, firefighters, citizens and police.

And fourth, the weapons we wield to wage war are not just tanks, missiles or rifles, but also satellites, computer algorithms, vaccines, sensors, and databases.

These changes raise fundamental questions about CIFIUS national security reviews.

In particular, if our perspective on national security has changed, does that automatically mean that CIFIUS reviews should also change to account for these new realities. Could, for example, foreign ownership of critical infrastructure or vital services that sustain our daily lives, pose a new risk to national security in light of global terrorism? Are we at risk of handing terrorists the keys to securing our house by allowing foreign direct investment in critical infrastructure or vital services? This, in the end, was the fear, and the underlying question during the debate over Dubai Ports last summer. I will discuss Dubai Ports later in my testimony.

A New Context – The Economy and Changes in Our Understanding of the Threat

The next change since 9-11 that we must understand is that our economy is a target of the threat. Contrary to what most Americans may believe, Al Qa'ida's goal is not to destroy the United States through direct confrontation—through direct attacks—but rather to provoke America into destroying itself.

There is a nuance here that is important to understand. If we miss the more hidden objective behind terror attacks against the United States—that is, the objective of

provoking America to destroy itself—we may focus our response, our policies, our homeland security on preventing attacks, without an eye on how we may also unwittingly be pursuing a course of action that does not necessarily serve our best interests, but rather may in fact be counter-productive, or worse self-destructive.

In one of his half dozen or more communication tapes since 9/11, Bin Laden warned that al Qa'ida is “continuing this policy [of] bleeding America to the point of bankruptcy.” The President made reference to this quote in his remarks last September, but claimed it referred to the goal of direct terrorist attacks. Specifically he said that by “targeting America's financial centers and economic infrastructure at home, [al Qa'ida was] hoping to terrorize us and cause our economy to collapse.”³

But we know, from Bin Laden's experience fighting the Soviets in the 1980s, and more explicitly from the same October 29, 2004 communication where Bin Laden explains his “bleed America to bankruptcy” policy, that he believes—whether true or not—that al Qa'ida can defeat America in the same manner the Mujahadin fighting the Soviets in Afghanistan contributed to the collapse of the Soviet Union:

“All that we have to do is to send two Mujahedin to the farthest point East to raise a piece of cloth on which is written al-Qa'ida in order to make the generals race there to cause America to suffer human economic and political losses without their achieving for it anything of note other than some benefits to their private companies. This is in addition to our having experience in using guerrilla warfare and the war of attrition to fight tyrannical superpowers as we alongside the Mujahedin bled Russia for 10 years until it went bankrupt and was forced to withdraw in defeat.”⁴

Yes, we must protect against future attacks, but it's also the economy.

Today, the U.S. economy is not poised for imminent collapse. And it is far healthier than the Soviet economy was prior to its collapse. But we are wise to heed the lessons of other great powers through out history—namely, that great powers often become complicit in their own downfall by emphasizing military over economic expansion in periods of decline.⁵

³ President George W. Bush's remarks, Capital Hilton, Washington, D.C. on September 5, 2006. Posted at <http://www.whitehouse.gov/news/releases/2006/09/20060905-4.html>

⁴ The translated full transcript, provided by the U.S. government, of Osama bin Laden's videotaped message aired on the al-Jazeera satellite television network, was posted on CNN's website November 1, 2004.

⁵ For a detailed discussion on this topic see Paul Kennedy, The Rise and Fall of the Great Powers (New York: Random House, 1987) and Charles Doran, Systems in Crisis: New Imperatives of High Politics at Century's End, (Cambridge: Cambridge University Press, 1991).

Risk of Loss of Foreign Investment in the United States

These changes—in the security landscape and the new understanding of the threat to our economy—provide the backdrop for which you must consider CIFIUS reforms today.

The hearing is focused on economic security. Keeping in mind al Qa'ida's strategy, there are two paths to economic self-destruction we must be wary of: on the *demand-side*, we risk spending ourselves to death due to fiscal irresponsibility or irrational expenditures; and on the *supply-side*, we risk discouraging or outright denying foreign investment in the United States because of poorly thought through policies we put in place.

While, I maintain that we have yet to apply effective risk-based formulas for our investments in homeland security, while we have extraordinary outlays in defense spending that must be very carefully thought through, and while current deficits will in effect raise taxes on future generations, it is the supply-side path to self-destruction—discouraging or denying foreign investment—that we must be concerned with in regards to CIFIUS.

Dubai Ports

Which brings us to Dubai Ports.

The Dubai Ports (DP) deal, in my opinion, was a huge debacle. In effect, we denied direct foreign investment to the U.S. by a U.A.E. firm, because of an unfounded fear of an unsubstantiated terrorist threat. Worse, we had a unique opportunity to improve national security and we lost it.

By squashing the deal, what we got—and what we have today—is worse port security than it would have been, had the deal gone through. Dubai Ports had agreed to a number of enhanced security standards at U.S. operations, including, for example, background checks on dock-workers. More, though, they had voluntarily agreed to subject some of their overseas ports to those same standards. When we lost the deal, however, we lost not only the promise of enhanced security at some U.S. ports, but also similar efforts abroad. As a result, security today is actually less with the new operators than it might have been had the deal gone forward with DP World.

CIFIUS and Ownership

What are some of the lessons of Dubai Ports and how the CIFIUS process worked?

1. **Foreign ownership does not and should not be assumed to automatically confer additional vulnerability on a business.** Sadly, our airlines were not foreign-owned, nor were the London subways, nor the Madrid trains. Similarly, it's not as if today our chemical facilities are more secure because they are owned and operated by American firms? Security is independent of ownership.

2. **A firm from a country where there has been known sources of terrorism should not automatically disqualify it from investing in the U.S.** Under this guilt-by-association formulation, the previous terminal operators, P&O, which is a British company, would probably have been forced to divest, given that the U.K. was the source of Richard Reid (the infamous 'shoe-bomber'), the most recent mass-transit attacks, and last summer's failed multiple airplane plot.
3. **The threshold test for CIFIUS national security reviews should be based on two assurances: one, that security of business transactions meet U.S. standards; and two, that U.S. government has the ability and authority to audit and verify that security.**
4. **The CIFIUS process must remain confidential, but more transparent to key members of Congress who are responsible for oversight.** The CIFIUS process was intentionally secret to take be to make critical business decisions outside the white-hot world of politics and competitiveness. Those reasons are still valid.

Broader Implications and Conclusion

In the end, we are really asking a more philosophical question—do foreigners make us stronger? Does engaging the rest of the world bolster are security, or diminish it?

We rely on foreign investment—to the tune now of over \$1 trillion a year—to sustain our economy. We rely on millions of foreign workers to run our businesses. We rely on dozens of foreign countries to enhance and support our military and intelligence operations fighting terrorism around the globe.

Foreign engagement is also about public diplomacy and U.S. influence in the world. A recent Discover America Partnership survey showed that those who have visited the U.S. are 74 percent more likely to have a favorable opinion of the country; and 61 percent believed that a visit to the U.S. would make them more likely to support the country and its policies.

America is deeply interconnected with the nations and peoples of the world. And both her security and economic vitality depend on securing those connections. The question is do we have the safeguards in place to keep our doors open to trade and foreign investment, to keep our borders open to foreign visitors, and our ports to global commerce. That is the goal. That is the heart of what makes America America.

And that is how we will continue to build America's wealth and prosperity in the future.

Thank you and I look forward to responding to your questions.